



ALTAI
RESOURCES INC.

ANNUAL REPORT 2004

TO OUR SHAREHOLDERS

The audited consolidated financial statements for the year ended December 31, 2004 and summaries of technical information on various projects in which the Company has an interest are presented in this annual report. These are also accessible on the websites of SEDAR at <www.sedar.com> and of our own at <www.altairesources.com>.

The last twelve months

The proposed transaction of the sale of the Lac St. Pierre and Sorel gas and gas storage projects to Bolcar Energy Inc. of Montreal did not close as Bolcar did not raise the additional equity financing required by the Asset Sale Agreement. The Agreement has expired on February 11, 2005.

Altai Philippines Mining Corporation ("APMC"), the Company's 40% owned affiliate, has signed an option agreement with a group of two Australian and a Philippine company headed by Sunshine Mining Pty. Ltd. (the "Optionee") for the sale of APMC's Sibuyan lateritic nickel-cobalt property, Romblon province, Philippines. The option exercise price of C\$1.3 million is payable within six months of the Philippine Government signing a Mineral Profit Sharing Agreement ("MPSA") with APMC on the property. The MPSA application involves public hearings with the local governments and organisations which are to be held in the near future. The Optionee will make a non-refundable advance of US\$70,000 to APMC towards the costs of the hearings. If and when the sale occurs, approximately C\$720,000 of the sale proceeds will accrue to the Company as partial repayment of APMC's debt to the Company.

The Company and its joint venture partner, Petro St-Pierre Inc., have carried out an airborne magnetometer survey on the Lac St. Pierre and Sorel permits at a budgeted cost of \$185,000 in March 2005. It is hoped that the survey will better define and extend further south the collapse zone (deep gas target) of the permits. The results and interpretation thereof will be available in the near future.

Going Forward

For its market capitalization, Altai is an asset rich company. Its assets are conservatively worth much more than its market capitalization. Yet shares of the Company are very low in market price and trade thinly. Until about five years ago exploration and building and adding to a Company's resource inventory were determining factors in the share price. Lately ability to finance a project to production generating revenues, good understanding of and relation with financial institutions become the important factors. The Company needs a new executive team that has these skills. As I intend to retire within a few years at the latest, one of the important tasks of our Board is to ensure executive succession with capable people attuned to changed times and priorities. This is not an easy challenge, given the difficulty in persuading proven performers to run a junior company. The rewards (in most cases) are few or non-existent. The burden and demands are heavy. We will try to get the best persons we can.

This Company will continue its effort to sell or option its gas properties at the best terms available to the Company, as the projects are at a stage that require deep drilling, heavy expenditures and know-how that are beyond the capability of the Company or its joint venture partner.

It is also likely that the Company will acquire one or more additional propert(ies) during the coming twelve months for exploration and, if warranted, development.

I take this opportunity to thank our shareholders, directors and consultants.

On Behalf of the Board

"Niyazi Kacira"

Dr. Niyazi Kacira
President and CEO
April 18, 2005

MINING PROPERTIES

CANADA

Altai Resources Inc. has interest in three properties in Canada.

Malartic Township Gold Property, Quebec

This 50% owned property of 120 hectares (300 acres) is located 10 km northeast of the town of Malartic, Val d'Or area, Quebec.

In 1989 Jean-Pierre Labelle, an independent consultant based in Noranda, Quebec prepared a pre-feasibility study entitled "Pre-Feasibility Study of the Abior Project, Malartic, Quebec" for the property.

The reserves were estimated by Mr. Labelle for veins Nos. 7, 11, 12 and 13 as:

Probable reserves: 135,406 m.t. at a grade of 13.9 g/tonne (uncut) or 6.98 g/tonne (cut).

Possible reserves : 120,566 m.t. at a grade of 12.6 g/tonne (uncut) or 6.50 g/tonne (cut).

For all the veins the resources calculated by consultant amount to 466,000 tonnes grading 7.11 g/tonne gold (513,900 tons grading 0.21 oz/ton) cut. The resources are to a depth of 200 meters (600 feet). The deposit has not been explored below that depth.

The variability of the gold content is related to the occurrence of several high grade intersections bearing free gold.

The property is within the prolific Val d'Or gold camp. The auriferous quartz veins spaced at about 10 m intervals occur in sheared diorite. Apart from mineralized quartz stringers and veins, diorite breccia and "bedded" carbonate-albite material is associated with the gold mineralization. The property has potential for hosting similar ore bodies as found elsewhere in the Val d'Or camp.

The property needs additional exploration to test zones with the high gold grade.

Lac St. Pierre Gas And Gas Storage Property, Quebec

This property of five oil and gas permits aggregating to 73,700 hectares (182,100 acres) is located in the Trois Riviere area, 100 kilometers east of Montreal in the industrial heartland of Quebec. The property is owned 53.496% by Altai and 46.504% by Petro St-Pierre Inc. ("PSP") of Montreal. Altai is the operator of the property. To date approximately 30% of the property has been covered by seismic surveys. Twenty-two shallow (less than 150 meters deep) gas targets have been outlined and two have been drilled with gas discoveries. One major deep target has been outlined. Paul Laroche, consulting geologist-geophysicist, has prepared an updated report on the property, including analysis of the results of the deep seismic survey. Highlights of the report are summarized below.

DEEP GAS TARGET

The deep (at depth of about 1,000 meters) exploration target, has been delineated. The target is a NE trending collapse zone 34 kilometers long averaging one kilometer in width, all on land. The zone appears as a collapse zone (a graben) at the top of Trenton formation of Ordovician age. The depression is interpreted to have been caused by hydrothermal dolomitization of fractured limestones (hydrothermal dolomite reservoir facies). The report points out that targets in similar geological setting along former shoreline of Cambro-Ordovician craton have produced large quantities of gas and oil in Ohio, Michigan, New York state, West Virginia and elsewhere in the Appalachian region of North America. Such targets are long and narrow.

Geologically the deep target may be compared to Talisman Energy Inc.'s Goldsmith-Lakeshore oil and gas field in southwestern Ontario. Goldsmith-Lakeshore field, still in production, has yielded five million barrels of oil and three billion cubic feet of gas since the start of production in 1986 to 2003 (Source: Talisman Energy Inc.) from Trenton Group. A comparison of the two graben zones is shown on the table below:

Comparison of Graben Zones Lac St. Pierre – vs – Goldsmith/Lakeshore		
Project	Altai Resources Inc. / Petro St-Pierre Inc. Lac St. Pierre, Quebec	Talisman Energy Inc. Goldsmith/Lakeshore South-west Ontario
Basin	St. Lawrence Lowlands	Appalachian
Length	34 km	14 km
Width	1 km	0.4 to 1.2 km
Depth to the top of Trenton	725 m	675 m
Top of Cambrien	Approx. 1,000 m	850 m
Porosity	3 – 10% *	3 – 10%
Detection	Seismic	Seismic
Reservoir	Heterogeneous*	Heterogeneous
Resource	Gas*	Gas and Oil
* Assumption		

In the Lac St. Pierre property, based on assumptions of 10% porosity and 30 meters of thickness of pay zone (assumption based on analogy with known deposits of similar type), the Consultant estimates that the target is capable of hosting 7.2 billion cubic feet (BCF) of gas per square kilometer of closure (gas traps) and recommends a 1,300 meters deep well in the first phase of the exploration program, to reach the target and stratigraphically lower Beekmantown formation which elsewhere contains gas and oil. This deep target has not been drilled to date. Six of nine wells drilled by others to the east and west of the target indicated gas.

SHALLOW GAS TARGET

With respect to shallow gas targets in Pleistocene (Quaternary era), the Consultant makes a number of useful observations and recommendations summarized below.

On the one third of the lake (Lac St. Pierre) that has been surveyed by the joint venture to date, he estimates total gas initially in place potential at 29.9 BCF but producible gas potential at 12 BCF. He also believes that producing gas from these small deposits under the lake may present logistical challenges due to icing of the St. Lawrence River (Lac St. Pierre is a widening of the river) and moving ice. He proposes some possible ways to overcome the challenges and recommends an engineering study to select the optimum solution.

RECOMMENDED WORK PROGRAM

The Consultant recommends a multiphase program consisting mostly of drilling and some seismic surveys at an estimated cost of \$5 million. Most of the seismic surveys will be conducted on the land portion of the permits, including Sorel Islands where no logistical challenge is anticipated in the production from eventual deposits.

Altai believes that the property has, over the long run, an unparalleled value as a gas storage site due to its location. The property is located 5 kilometers south of the TransCanada Pipeline. According to publicly available information, Point du Lac shallow storage reservoir facility of 0.8 BCF, located two kilometers NE of the property, generates \$6.6 million revenue per year.

Sorel Gas Property, Quebec

This property of two permits aggregating to 49,500 hectares (122,300 acres) is located adjacent to and to the south of Lac St. Pierre property. It was acquired in the summer of 2003. As at December 31, 2004, Altai, the operator of the property, owns 53.496% interest in this property, and Petro St-Pierre Inc. has 46.504% interest.

In 2004, Altai commissioned consulting firm Roche Ltée of Quebec City to compile all available geological and geophysical data on the Sorel permits. Their conclusion is that the collapse zone (deep gas target) outlined in the Lac St. Pierre permits to the north extends for about five kilometers into the Sorel permits. Further south the available data is insufficient to decide whether or not the deep target continues further.

The Consultant has recommended a first phase exploration program of mostly seismic work at a cost of \$550,000.

PROGRAM IN PROGRESS

In March 2005 Altai and its joint venture partner, Petro St-Pierre Inc., carried out a helicopter borne gradient and total field magnetometric survey to better define the collapse zone (deep targets) in both Lac St. Pierre and Sorel permits. The survey consists of 3,200 kilometers of high resolution survey at a cost of about \$185,000. The results and interpretation report are expected shortly.

PHILIPPINES

Altai Resources Inc. has a 40% equity interest in Altai Philippines Mining Corporation ("Altai Philippines") and has a direct 10% Net Smelter Return (NSR) royalty interest in all properties in which Altai Philippines has an interest. Alternatively, Altai may elect to give up its 10% NSR interest in return for building and owning 80% of the ore processing facilities; in such event, Altai will buy the ore from Altai Philippines by paying a royalty equal to 10% of the direct mining costs of the ore delivered to the processing facilities. Altai Philippines will subsequently have 20% ownership of the processing plant.

In the event that properties are joint-ventured, leased or sold to a third party interest(s), 60% of residual proceeds will accrue to Altai until it recovers its past expenditures in the Philippines and 40% to Altai Philippines. After recovery of Altai's expenditures, proceeds will be shared equally.

Sibuyan Island Lateritic Nickel - Cobalt Property, Romblon

This property of 1,822 hectares (4,500 acres) is located on the Sibuyan Island, Province of Romblon, on the tidewaters of the Visayan Sea.

The property was explored in 1970's first by Pacific Metals Company and later by Mitsui Mining, both of Japan, in search for feed stock for the Japanese ferronickel smelting industry. Work for both companies was supervised by the same consultant. Based on 431 drill holes and test pits, the consultant estimated the resources at 19 million tonnes averaging 1.3% nickel at a cut-off grade of 1% nickel or 7.26 million tonnes at 1.6% Ni at a cutoff grade of 1.3% nickel. The material contains one pound of cobalt per tonne.

The potential to increase the resource by further exploration of the property is excellent.

In November 2004, Altai Philippines Mining Corporation has signed an option agreement with a group of two Australian and a Philippine company headed by Sunshine Mining Pty. Ltd. (the "Optionee") for the sale of Altai Philippines' Sibuyan lateritic nickel-cobalt property. The option exercise price of C\$1.3 million is payable within six months of the Philippine Government signing a Mineral Profit Sharing Agreement ("MPSA") with Altai Philippines on the property. The MPSA application involves public hearings with the local governments and organisations which are to be held in the near future. The Optionee will make a non-refundable advance of US\$70,000 to Altai Philippines towards the costs of the hearings. If and when the sale occurs, approximately C\$720,000 of the sale proceeds will accrue to the Company as partial repayment of Altai Philippines' debt to the Company.

Lahuy Island Gold Property, Camarines Sur

This property of 1,377 hectares (3,400 acres) is located on the Lahuy Island in the Province of Camarines Sur.

It has a former gold producer (1936-1941), Treasure Island Mine, which was closed due to the Japanese invasion during the Second World War. The mine operated at rates of up to 250 tonnes per day and produced 66,000 oz of gold from two veins with an average grade of 14 g/tonne. The A-vein has been explored and developed by drifts down to the 1,150 feet level. Most of the production took place above the 400 feet level. An ore reserve/resource of similar grade exists below the 400 feet level. Since the war, only small scale high grade gouging operations were carried out in the upper part of the vein systems by the local people. In 1987, an Australian exploration company, the Genoa Group, explored the veins and a zone of disseminated mineralization by completing 3,800 meters of diamond drilling. The exploration program was supervised by a well-known Australian consulting firm, Robertson Research Minerals Ltd. (now Amco Robertson Mineral Services Ltd.).

In 1988, Minproc Engineers Pty Ltd., an Australian consulting firm, evaluated the historical mining data and the results of the 1987 drill program and concluded that in the A-vein the measured, indicated and inferred reserves/resources amount to 174,000 tonnes with a grade of 13 g/tonne gold. According to Minproc Engineers, the potential resource in the A and B veins, down to a depth of 200 meters, is estimated to be 434,000 tonnes, also at 13 g/tonne. According to the same consulting firm, in the zone of disseminated mineralization, the indicated resource is 214,000 tonnes grading 2.46 g/tonne gold and the potential resource is 5 to 10 million tonnes of similar grade.

Negros Island Sulfur Property, Negros Oriental

This property of 4,052 hectares (10,000 acres) is located 15 km north of the city of Dumaguete, Negros Island, Province of Negros Oriental, and 3 km from the tidewaters of the Visayan Sea. The property was extensively explored in the 1960's, mostly by Benguet Corporation; 178 drill holes totaling about 24,500 meters were completed. In the 1970's ore reserve estimates were prepared by G. R. Oca, a Philippine consultant, and by the Philippine Bureau of Mines. Both studies indicate that there are about 59 million tonnes of mineable resources and 24 million tonnes of measured resources (drill indicated resources). The latter was left out of the open pit design by the consultant. Both the mineable and measured resources grade about 30% sulfur in native and sulfide form. The deposit is mineable by open pit. There is an excellent potential to increase the combined reserve/resource to well over 100 million tonnes. The deposit has sufficient resources to support a large fertilizer plant. At present there is no sulfur production in the Philippines; all the sulfur is imported.

In 1998, Crew Minerals Philippines Inc. ("Crew" and formerly Mindex Resources Development, Inc.), a wholly-owned subsidiary of Crew Gold Corporation, a TSX listed company, signed an option agreement to put the property into production for 75% net profit interest (NPI), while Altai Philippines will be carried at 25% NPI. In late 2002, Altai Philippines and Crew signed an amendment to the option agreement, revising the payment terms of the agreement. Altai Philippines will receive yearly advance royalty payments which will rise to US\$125,000/year by January 2007 and thereafter, until the property reaches a production rate of at least 50,000 tonnes/month. Crew has the option to buy, at any time, Altai Philippines' NPI for US\$750,000 on or before January 2007 and for US\$1 million thereafter. The revision was made in consideration of the then world market conditions for sulfur and at the request of Crew. To date, Crew has not yet put the property into production.

Ticao Limestone Property, Masbate

This property of 2,500 hectares (6,200 acres) is located on the island of Ticao in Masbate Province. There are abundant exposures of a thick limestone unit adjacent to a shale deposit. Though the property has no established reserve or resource, the presence of large and abundant limestone outcrops suggests a large resource potential in the order of at least 150 million tonnes of limestone above sea level.

Altai Philippines carried out site visits and sampled the limestone and shale deposits. The limestone is of high purity, suitable for the manufacture of cement. Certain portions of the deposit are also suitable for use as filler in the paper, plastic and rubber industries. The combination of pure limestone and shale and the possibility of inexpensive transportation by sea would provide an ideal source of raw material for the manufacture of cement.

Ticao Island Cement Corporation ("Ticao"), a private Philippine company, signed a letter of intent in 1997 to purchase the property for US\$1 million but had to let the agreement expire later since it could not finance the project (due to the economic downturn in SE Asia at that time). Ticao reportedly conducted some geotechnical work on the deposit results of which are not available to Altai. Ticao commissioned R.G. Abiera and Associates ("RGA"), Mandaluyong City, Philippines to carry out a scoping study on the economics of setting up a cement plant on this property. RGA estimated that the optimum plant size will have a yearly production capacity of 1.2 million tons of Portland cement. The capital cost was estimated at US\$275 million with a payback period of two years.

Altai Philippines intends to sell the property. As yet, there are no expenditures required to keep the MPSA application in good standing.

Bulan Gold Property, Sorsogon

This property of 3,000 hectares (7,400 acres) is located on the Bicol Peninsula, at the south end of Luzon Island, Province of Sorsogon. In the 1991 to 1993 period, the Philippine Government carried out reconnaissance and semi-detailed geochemical surveys. Large gold-silver geochemical anomalies were detected and floats of hydrothermally altered, gold-mineralized rocks were found within the area of the property. The silica and clay alteration is typical of epithermal deposits.

Boulders of mineralized rocks found in creekbeds assayed up to 1.44 g/tonne gold.

The property has potential for the discovery of bulk mineable low grade gold mineralization.

CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31, 2004

	2004	2003
	\$	\$
ASSETS		
Current		
Cash	51,173	26,913
Marketable securities (Note 3)	32,018	32,018
Accounts receivable	379	1,617
	<u>83,570</u>	<u>60,548</u>
Note receivable (Note 4)	546,903	546,903
Investment in subsidiaries (Note 5)	615,740	629,138
Interests in mining properties (Note 6)	1,011,499	1,007,210
Natural gas interests (Note 7)	1,434,505	1,444,245
Investment in technology project (Note 8)	1	1
Total Assets	<u>3,692,218</u>	<u>3,688,045</u>
LIABILITIES		
Current		
Accounts payable	12,698	38,974
Loan from officer (Note 11)	35,000	-
Current portion of consulting charge payable (Note 11)	35,100	-
	<u>82,798</u>	<u>38,974</u>
Consulting charge payable (Note 11)	140,400	-
	<u>223,198</u>	<u>38,974</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	9,279,232	9,243,232
Contributed surplus (Note 9)	69,950	-
Deficit	(5,880,162)	(5,594,161)
	<u>3,469,020</u>	<u>3,649,071</u>
Total liabilities and shareholders' equity	<u>3,692,218</u>	<u>3,688,045</u>

The accompanying notes are an integral part of the financial statements.

Approved on behalf of the board:

Niyazi Kacira
President and CEO, Director

K. Sethu Raman
Director

CONSOLIDATED STATEMENTS OF OPERATIONS, DEFICIT AND CONTRIBUTED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 2004

	2004	2003
	\$	\$
CONSOLIDATED OPERATIONS		

Revenue		
Investment and miscellaneous income	4,647	9,541
Interest earned on note receivable (Note 4)	–	53,195
	4,647	62,736
Expenses		
Administrative expenses	233,253	74,905
Provision for doubtful accounts	–	53,195
Stock-based compensation cost	14,400	–
Abandonment and write off	710	–
Prospecting and general	396	384
Amortization	–	108
	248,759	128,592
Net Income before share of net earnings (loss) of equity investment	(244,112)	(65,856)
Share of net earnings (loss) of equity investment	25,661	(14,718)
Net loss	(218,451)	(80,574)
Net loss per share – basic and fully diluted (Note 10)	(0.009)	(0.003)
CONSOLIDATED DEFICIT		
Balance, beginning of year	(5,594,161)	(5,513,587)
Restatement of stock-based compensation cost (Note 9)	(67,550)	–
Restated balance, beginning of year	(5,661,711)	(5,513,587)
Net loss	(218,451)	(80,574)
Balance, end of year	(5,880,162)	(5,594,161)
CONSOLIDATED CONTRIBUTED SURPLUS		
Balance, beginning of year	–	–
Restatement of stock-based compensation cost (Note 9)	67,550	–
Restated balance, beginning of year	67,550	–
Stock-based compensation cost (Note 9)	14,400	–
Stock-based compensation value of options exercised (Note 9)	(12,000)	–
Balance, end of year	69,950	–

The accompanying notes are an integral part of the financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	2004	2003
	\$	\$
Operating activities		
Net loss	(218,451)	(80,574)
Items not affecting cash		
Share of net earnings (loss) of equity investment	(25,661)	14,718
Stock-based compensation cost	14,400	–
Abandonment and write off	710	–
Amortization	–	108
Gain on sale of marketable securities	–	(5,405)
Decrease in accounts receivable	1,238	211
Increase in loan from officer	35,000	–
Decrease (increase) in accounts payable	(26,276)	1,297

Increase in consulting charge payable	175,500	–
Cash used in operating activities	(43,540)	(69,645)
Investing activities		
Deferred exploration expenditures	(4,999)	(38)
Proceeds on sale of marketable securities	–	10,405
Natural gas interests	9,740	(74,141)
Investment in subsidiaries	39,059	(349)
Cash provided by (used in) investing activities	43,800	(64,123)
Financing activities		
Issue of shares	24,000	96,000
Cash provided by financing activities	24,000	96,000
Change in cash	24,260	(37,768)
Cash, beginning of year	26,913	64,681
Cash, end of year	51,173	26,913

The accompanying notes are an integral part of the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

1. Nature of operations

The Company has interests in mining properties which it is in the process of exploring and has not yet determined whether these properties contain reserves that are economically recoverable. The recoverability of expenditures on resource properties, including deferred exploration expenditures, is dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain necessary financing to complete the exploration and the development of the resource properties, and upon future profitable production or proceeds from the disposition thereof.

2. Summary of significant accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries in Canada, Peru and the United States.

(b) Marketable securities

Marketable securities are carried at the lower of cost and market value.

(c) Credit risk

The Company does not believe it is subject to any significant concentration of credit risk. Cash and short-term investments are in place with major financial institutions and corporations.

(d) Interests in mining properties

Interests in mining properties and claims are stated at cost. Exploration expenditures relating to mining properties in which an interest is retained are deferred and are carried as an asset until the result of the projects are known. If a project is successful, the acquisition cost and related deferred exploration expenditures would be amortized by charges against income from future mining operations. If a project is unsuccessful or if exploration has ceased because continuation is not economically feasible, the cost of the property and the related exploration expenditures are written off.

Exploration expenditures, which are general in nature and cannot be associated with a specific group of mining claims, and general administrative expenses are written off in the year in which they are incurred.

(e) Natural gas interests

Natural gas interests are stated at cost and include expenditures for carrying and retaining undeveloped properties.

(f) Impairment of long-lived assets

The Company has adopted the CICA Handbook Section 3063, "Impairment of Long-Lived Assets". This section requires the Company to assess the impairment of long-lived assets, which consist primarily of resource properties, plant and equipment, whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used are measured by a comparison of the carrying value of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the amount of the impairment is measured by the amount by which the carrying amount of the asset exceeds its fair value.

For the Company, the adoption of CICA Handbook Section 3063 had no impact on results of operations previously presented.

(g) Asset retirement obligations

Effective January 1, 2004 the Company adopted the new recommendations for accounting and reporting for obligations associated with retirement of tangible long-lived assets and the associated asset retirement costs as required by CICA Handbook Section 3110 "Asset Retirement Obligations" ("CICA 3110"). CICA 3110 requires that the fair value of a liability or an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The estimate excludes the residual value of the related assets. The associated retirement costs are capitalized as part of the carrying amount of the long lived assets and amortized over the life of the asset. The amount of liability is subject to re-measurement at each reporting period. This differs from prior practice which involved accruing for the estimated retirement obligation through annual changes to earnings over the estimated life of the property. The effect of the adoption of this accounting policy on the opening deficit is Nil. At the present time, the Company has concluded that there are no asset retirement obligations associated with any of the properties.

(h) Financial instruments

All significant financial assets, financial liabilities and equity instruments of the Company are either recognized or disclosed in the financial statements together with available information for a reasonable assessment of future cash flows, interest rate risk and credit risk.

(i) Foreign currency translation

Balances denominated in foreign currencies are translated into Canadian dollars as follows:

- i) monetary assets and liabilities at year end rates;
- ii) all other assets and liabilities at historical rates; and
- iii) revenue and expense transactions at the average rate of exchange prevailing during the year.

Exchange gains or losses arising on these transactions are reflected in income in the year incurred.

(j) Earnings (loss) per share

Basic net earnings (loss) per share is calculated by dividing the net earnings (loss) by the weighted average number of shares outstanding during the period. Diluted net earnings (loss) per share is calculated by dividing the net earnings (loss) by the sum of the weighted average number of shares outstanding and all additional shares that would have been outstanding if potentially dilutive securities had been issued during the period.

(k) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(l) Income taxes

Income taxes are accounted for using the future income tax method. Under this method income taxes are recognized for the estimated income taxes payable for the current year and future income taxes are recognized for temporary differences between tax and accounting bases of assets and liabilities and for the benefit of losses available to be carried forward for tax purposes that are likely to be realized. Future income tax assets and liabilities are measured using tax rates expected to be recovered or settled. Tax benefits have not been recorded due to uncertainty regarding their utilization.

(m) Stock-based compensation cost

In 2004, the Company adopted, retroactively without restating prior periods, the recommendations of the CICA Handbook Section 3870, "Stock-based compensation and other stock-based payments", which now require that the fair value based method be applied to awards granted to employees. Under the recommendations, the Company recognises the stock-based compensation cost related to options granted on the basis of fair value at the date of grant in accordance with the fair value method of accounting for stock-based compensation.

In 2004, the Company restated stock-based compensation cost of \$67,550 related to 1,233,000 vested stock-options granted to directors, officers and service provider from 2001 to 2003 with fair values ranging from \$0.04 to \$0.09 estimated by using the Black Scholes option pricing model and the following assumptions: expected life of 3 and 5 years, risk-free interest rates of 6.05%, 4.19% and 4.69%, volatility ranging from 66.67% to 1050%, and a dividend yield of 0%. The restatement of \$67,550 stock-based compensation cost was charged to opening balances of deficit and contributed surplus without restating prior periods.

3. Marketable securities

The marketable securities on hand at December 31, 2004 had a market value of \$161,028 (2003-\$139,785).

4. Note receivable and interest earned on note receivable

The note receivable represents a promissory note due from Altai Philippines Mining Corporation ("Altai Philippines"). This note bears interest at the rate of 18% per annum compounded annually. The note plus total interest is capped at three times of the note principal, and that was reached in 2003. Although this note has no fixed terms of repayment, Altai Philippines is required under the terms of its shareholders' agreement to use at least 60% of its operating income to first pay any and all loans and accrued interest due to the Company. The monies advanced under this promissory note were for the purposes of exploration and acquisition of properties by Altai Philippines.

5. Investment in subsidiaries

The Company has a 40% equity interest in Altai Philippines Mining Corporation ("Altai Philippines") and has a direct 10% Net Smelter Return (NSR) royalty interest in all properties in which Altai Philippines has an interest. Alternatively, the Company may elect to give up its 10% NSR interest in return for building and owning 80% of the ore processing facilities; in such event, the Company will buy the ore from Altai Philippines by paying a royalty equal to 10% of the direct mining costs of the ore delivered to the processing facilities. Altai Philippines will subsequently have 20% ownership of the processing plant.

In the event that properties are joint-ventured, leased or sold to a third party interest(s), 60% of residual proceeds will accrue to the Company until it recovers its expenditures and 40% to Altai Philippines. After recovery of the Company's expenditures, proceeds will be shared equally.

The properties of Altai Philippines are Sibuyan Island lateritic nickel-cobalt property, Lahuy Island gold property, Negros Island sulfur property, Ticao limestone property and Bulan gold property.

Since September 1998 Crew Gold Corporation ("Crew" and formerly Crew Development Corporation), through its wholly owned subsidiary, Crew Minerals Philippines Inc., has an option agreement to put the Negros Island sulfur property into production for 75% net profit interest (NPI) of the property while Altai Philippines will be carried at 25% NPI. As at December 31, 2004 and to date, Crew has not yet put the property into production.

In November 2004, Altai Philippines entered into an option agreement with a consortium headed by Sunshine Gold Pty Ltd ("Sunshine") of Australia on Altai Philippines' nickel laterite property on Sibuyan Island ("Sibuyan property"). Under the option agreement, Sunshine, after satisfactory due diligence on the property, would have ninety days from the date of Altai Philippines obtaining approval of the Mineral Production Sharing Agreement (MPSA) application for the property to exercise the option to purchase the Sibuyan property. Sunshine was to fund the expenses for the MPSA application. As at December 31, 2004, Sunshine has not yet completed its due diligence on the property.

The Company records its investment in Altai Philippines Mining Corporation on the equity basis. Under this method, the Company reflects in its earnings its proportionate share of the earnings (losses) of the subsidiary. The investment in the subsidiary is recorded at cost minus undistributed earnings (losses) since inception.

	2004	2003
	\$	\$
40% equity shares and investment expenses	924,053	963,112
Share of net earnings (losses) to date	(308,314)	(333,975)
	<u>615,739</u>	<u>629,137</u>

The investment in the Company's wholly owned subsidiary, Compania Minera Carrera S.A., has been written down to a nominal value. The Company has abandoned all activities in Chile and currently retains no interest in any properties in the country.

6. Interests in mining properties

	Balance, Beginning of Year	Expenditure	Write-off	Balance, End of Year
	\$	\$	\$	\$
Malartic Township, Quebec				
Property	283,711	-	-	283,711
Expenditure	723,461	4,327	-	727,788
Other Property				
Property	-	-	-	-
Expenditure	38	672	710	-
Total Mining Properties				
Property	283,711	-	-	283,711
Expenditure	723,499	4,999	710	727,788
	<u>1,007,210</u>	<u>4,999</u>	<u>710</u>	<u>1,011,499</u>

Mining properties description:

Malartic Township gold property, Quebec

50% working interest in three mining claims totalling 120 hectares (300 acres).

7. Natural gas interests

	Balance, Beginning of Year	Expenditure	Grant and Option	Balance, End of Year
	\$	\$	\$	\$
Lac St. Pierre property, Quebec	1,441,604	12,377	36,350 ⁽¹⁾	1,417,631
Sorel property, Quebec	2,641	14,233	–	16,874
Total natural gas properties	1,444,245	26,610	36,350	1,434,505

⁽¹⁾ The amount includes a grant from the Quebec Government of \$24,609.

a) Natural gas properties description:

Lac St. Pierre natural gas property, Quebec

At the beginning of 2004 the Company owned a 53.369% working interest in five oil and gas permits covering 73,700 hectares (182,100 acres) in the Sorel area of Quebec.

As at December 31, 2004 this working interest was 53.496%. The project partner, Petro St-Pierre Inc. ("PSP"), had 46.504% working interest at December 31, 2004. Mengold Resources Inc. ("Mengold" and formerly known as Menora Resources Inc.) holds a 10% net profit interest participation in the Company's future share of net profits after payback from the project. Mengold's participation is limited to the recovery of its investment carrying value of \$259,010.

Sorel natural gas property, Quebec

At the beginning of 2004 the Company owned a 53.369% working interest in two oil and gas permits covering 49,455 hectares (122,200 acres) in the Sorel area of Quebec. As at December 31, 2004, this working interest was 53.496%, while the project partner, Petro St-Pierre Inc. ("PSP") had 46.504% working interest.

- b) In April 2004 the Company and PSP signed an agreement (the "Agreement") with Bolcar Énergie Inc. ("Bolcar"), a Montreal based capital pool company listed on the TSX Venture Exchange ("TSX Venture"), to sell the Lac St. Pierre property to Bolcar for approximately \$7.9 million in Bolcar common shares. An Addendum to the Agreement was signed on August 11, 2004 (the "Addendum") (the Agreement and the Addendum collectively referred as the "Bolcar Agreement") to include in the transaction the sale of the 2 permits of the Sorel property the cash portion (\$90,000) of which would be payable to the Company and PSP on the transaction closing date and to revise the deemed Bolcar share price for the transaction from \$0.25 per share to \$0.30 per share per TSX Venture decision.

The Bolcar Agreement has expired on February 11, 2005 without the proposed transaction being closed (also refer to Note 14).

8. Investment in technology project

The Company, through its wholly-owned subsidiary, Altai Technologies Inc. ("Altai Technologies"), has one high technology project, the Mapcheck Inc. project which has been written down to a nominal value of \$1.

The Company has a loan agreement with Altai Technologies that the total amount of all expenses, including any investment payments for the projects of Altai Technologies, which have been and will be paid by the Company on behalf of Altai Technologies in excess of \$400,000 will be treated as a non-interest bearing loan and will be repayable to the Company immediately upon the earlier of the completion of any financing of Altai Technologies or the day before Altai Technologies becomes a publicly traded company.

9. Share capital and options

Share Capital

Authorized

An unlimited number of common shares of no par value.

Issued	No. of shares	Amount \$
Issued at December 31, 2003	23,893,554	9,243,232
Issued for cash in 2004		
– exercise of stock options	240,000	24,000
Stock-based compensation value of options exercised in 2004		12,000

Issued at December 31, 2004

24,133,554

9,279,232

At December 31, 2004, there were 219,667 escrowed common shares outstanding.

Options

- a) The 2002 Stock Option Plan which authorizes the Board to grant up to 2,293,000 option shares to directors, officers and employees of the Company or of its subsidiaries is in effect. The options are generally exercisable for up to five years from the date of grant.

The prices of all stock options granted are greater than or equal to the fair market value of each common share on the dates the options were granted.

At December 31, 2004, there were 500,000 option shares available for grant.

The following table summarizes share option activities since December 31, 2003:

	Number of shares	Options outstanding
		Weighted average exercise price
		\$
Balance at December 31, 2003	1,783,000	0.100
Granted	240,000	0.140
Exercised	(240,000)	0.100
Cancelled	(440,000)	0.105
Balance at December 31, 2004	1,343,000	0.107

The following table summarizes outstanding share options at December 31, 2004:

Exercisable	Number of share options outstanding		Expiry date	Weighted average
	Unexercisable	Total		Exercise price
				\$
583,000	–	583,000	August 18, 2007	0.100
60,000	–	60,000	October 31, 2007	0.100
10,000	–	10,000	March 18, 2008	0.100
–	450,000 ⁽¹⁾	450,000	April 10, 2005	0.100
240,000	–	240,000	June 17, 2009	0.140
893,000	450,000	1,343,000		0.107

- ⁽¹⁾ An option granted to a technical consultant and the vesting of the option is based on the terms of the technical consulting agreement. The option is non-vested as at December 31, 2004.

b) Accounting for stock-based compensation cost

In 2004, the Company adopted, retroactively without restating prior periods, the recommendations of the CICA Handbook Section 3870, "Stock-based compensation and other stock-based payments", which now require that the fair value based method be applied to awards granted to employees. Under the recommendations, the Company recognises the stock-based compensation cost related to options granted on the basis of fair value at the date of grant in accordance with the fair value method of accounting for stock-based compensation.

In 2004, the Company restated stock-based compensation cost of \$67,550 related to 1,233,000 vested stock-options granted to directors, officers and service provider from 2001 to 2003 with fair values ranging from \$0.04 to \$0.09 estimated by using the Black Scholes option pricing model and the following assumptions: expected life of 3 and 5 years, risk-free interest rates of 6.05%, 4.19% and 4.69%, volatility ranging from 66.67% to 105%, and a dividend yield of 0%. The restatement of \$67,550 stock-based compensation cost was charged to opening balances of deficit and contributed surplus without restating prior periods.

The Company recognised stock-based compensation cost of \$14,400 related to 240,000 vested option shares granted to directors in 2004 with a fair value of \$0.06 estimated by using the Black Scholes option pricing model and the following assumptions: expected life of 5 years, a risk-free interest rate of 4.27%, a volatility of 80% and a dividend yield of 0%.

10. Earnings (loss) per share

Basic net earnings (loss) per share is calculated by dividing the net earnings (loss) by the weighted average number of shares outstanding during the period. Diluted net earnings (loss) per share is calculated by dividing the net earnings (loss) by the sum of the weighted average number of shares outstanding and all additional shares that would have been outstanding if potentially dilutive securities had been issued during the period.

The following table sets forth the computation of basic and diluted loss per share:

	2004	2003
Numerator		
Net loss for the year – basic and diluted	\$ (218,451)	\$ (80,574)
Denominator		
Weighted average number of shares – basic	24,065,275	23,703,444
Effect of dilutive shares		
Stock options	–	–
Weighted average number of shares – diluted	24,065,275	23,703,444
Basic and diluted net loss per share	\$ (0.009)	\$ (0.003)

Due to the loss in 2004 and 2003, no diluted net loss per share is provided as the inclusion of outstanding stock options would be anti-dilutive.

11. Related party transactions

- An officer of the Company made to the Company a non-interest bearing loan of \$35,000 repayable on demand by the officer.
- Consulting services were provided by officers. Fees for such services amounted to \$184,005 (2003 – \$39,000). These fees have been allocated to administrative expenses (\$180,005, being \$4,505 paid and \$175,500 payable over 5 years per Note 11d) and resource properties (\$4,000).
- Effective August 1, 2004 remuneration to the President of the Company has been fixed at \$1 per month until further change.
- At the end of July 2004, an officer of the Company (who ceased to be an officer of the Company effective September 1, 2004) demanded from the Company per the terms of the consulting agreement the payment of the accumulative total of the difference between the monthly consulting fee of \$4,500 and the various voluntarily reduced consulting fees from 1998 to July 31, 2004 and the gratuity due to her on the termination of the consulting agreement at the end of July 2004. By agreement dated October 23, 2004, the amount had been reduced and fixed at \$175,500 payable in equal instalments over five years starting in 2005. The full amount of \$175,500 has been charged to administrative expenses in 2004.
- The Company is contingently liable to an officer of the Company for consulting fees of approximately \$450,000. This liability resulted from voluntary reductions from consulting fees payable in accordance with the terms of the consulting agreement and will become due and payable upon demand by the officer.

12. Office rental lease

The Company has a 3 year office gross rental lease from September 2004 to August 2007.

The expected future lease payments by year are:-

	\$
2005	6,000
2006	18,000
2007	12,000
	36,000

13. Income taxes

The provision for income taxes is different from the amount that would have been computed by applying statutory federal and provincial rates due to the following:

	2004	2003
	\$	\$
Statutory rate	19.49%	19.49%

	2004	2003
	\$	\$
Loss before income taxes	(218,451)	(80,574)
Abandonment and write off	710	-
Stock-based compensation cost	14,400	-
Amortization per statements	-	108
Share of income/loss of equity investment	(25,661)	14,718
Non-taxed capital gain	-	(2,802)
Loss for tax purposes	(229,002)	(68,550)

The Company has income tax losses in the amount of \$596,000 (2003 - \$579,000) and tax pools in the amount of \$1,121,000 (2003 - \$1,126,000) available to reduce future taxable income. The potential benefits of these amounts have not been reflected in these financial statements.

Income tax losses by year of expiry:

	\$
2005	94,000
2006	27,000
2007	73,000
2008	67,000
2009	37,000
2010	69,000
2011	229,000
	596,000

14. Subsequent Event

The proposed transaction per the Bolcar Agreement signed between the Company and its joint venture partner in the Lac St. Pierre and Sorel natural gas properties, Petro St-Pierre Inc. ("PSP"), and Bolcar Energie Inc. ("Bolcar") for the sale by the Company and PSP to Bolcar of the Lac St. Pierre and Sorel properties referred to in Note 7 did not close at the required closing date per the terms of the Bolcar Agreement. Bolcar did not complete the required minimum additional equity financing per the terms of the Bolcar Agreement. Therefore the Bolcar Agreement has expired on February 11, 2005 per the terms of the Bolcar Agreement without the proposed transaction being closed.

AUDITORS' REPORT

To the Shareholders of Altai Resources Inc.

We have audited the consolidated balance sheets of Altai Resources Inc. as at December 31, 2004 and 2003 and the consolidated statements of operations, deficit and contributed surplus and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Bolton & Bolton

Chartered Accountants
Unionville, Ontario
February 15, 2005

COMMENTS BY AUDITORS FOR U.S. READERS ON CANADA - UNITED STATES REPORTING DIFFERENCES

In the United States, reporting standards for auditors require the expression of a qualified opinion when the financial statements are affected by significant uncertainties such as those referred to in notes 1 and 2 to the financial statements. The opinion in our report to the shareholders dated February 15, 2005 is not qualified with respect to, and provides no reference to, these uncertainties since such an opinion would not be in accordance with Canadian reporting standards for auditors when the uncertainties are adequately disclosed in the financial statements.

Bolton & Bolton

Chartered Accountants
Unionville, Ontario
February 15, 2005

CORPORATE INFORMATION

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Symbol: ATI

U.S.A.: SEC RULE 12g3-2(b) EXEMPTION NO.:
82-2950